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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP- Chairman
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AZ CORP COMMISSION
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2014 APR 10 PM 1 29

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY REQUEST FOR
APPROVAL OF UPDATED GREEN POWER
RATE SCHEDULE GPS-1, GPS-2, AND GPS-
3.

DOCKET NO. E-01345A-10-0394

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR APPROVAL OF ITS 2013 RENEWABLE
ENERGY STANDARD IMPLEMENTATION
FOR RESET OF RENEWABLE ENERGY
ADJUSTOR.

DOCKET NO. E-01345A-12-0290

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY
FOR APPROVAL OF ITS 2013 RENEWABLE
ENERGY STANDARD IMPLEMENTATION
PLAN AND DISTRIBUTED ENERGY
ADMINISTRATIVE PLAN AND REQUEST
FOR RESET OF ITS RENEWABLE ENERGY
ADJUSTOR.

DOCKET NO. E-01933A-12-0296

Arizona Corporation Commission
DOCKETED

APR 10 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. FOR APPROVAL OF
ITS 2013 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN AND
DISTRIBUTED ENERGY ADMINISTRATIVE
PLAN AND REQUEST FOR RESET OF ITS
RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-04204A-12-0297

**STAFF'S NOTICE OF COMPLIANCE
FILING PER DECISION NO. 74365**

Staff of the Arizona Corporation Commission ("Staff") hereby gives notice that on March 31, 2014, Docket No. RE-00000C-14-0112 was opened for the purpose of the Commission considering modifications to the REST rules per Decision No. 74365.

On April 4, 2014, Staff filed its Notice of Compliance Filing per Decision No. 74365 in Docket No. RE-00000C-14-0112. In its Notice of Compliance Filing, Staff set forth seven (7) options to modify the Renewable Energy Standard Tariff ("REST") rules consistent with the

1 Commission's directives in Decision No. 74365. Staff requested comment on its options by April 21,
2 2014, and reply comments by April 28, 2014.

3 For informational purposes, Staff has attached a copy of its Compliance filing to this Notice.
4 However, all comments to Staff's Compliance Filing should be filed in Docket No. RE-00000C-14-
5 0112.

6 RESPECTFULLY SUBMITTED this 10th day of April, 2014.

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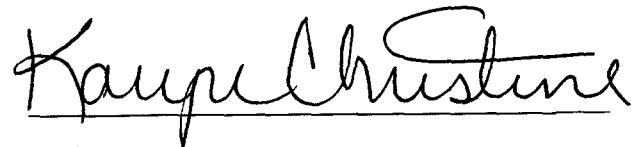
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PROPOSED RULEMAKING TO MODIFY
THE RENEWABLE ENERGY STANDARD
RULES IN ACCORDANCE WITH ACC
DECISION NO. 74365.

DOCKET NO. RE-00000C-14-0112

**STAFF'S NOTICE OF COMPLIANCE
FILING PER DECISION NO. 74365**

The Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") submits the attached compliance filing per Decision No. 74365 (Docket No. E-01345A-10-0394, et al.). In the attached filing, Staff has set forth seven (7) options to modify the Renewable Energy Standard Tariff ("REST") rules consistent with the Commission's directives in Decision No. 74365.

On February 26, 2014, the ACC issued Decision No. 74365. In that Decision, the Commission ordered:

that the REST rules shall be opened for the purpose of developing a new methodology for utilities to comply with renewable energy requirements that is not based solely on the use of RECs.

and

that Staff shall, after consultation with utilities, interveners in this docket, and other interested stakeholders, file proposed new rules no later than April 15, 2014, with the Commission...

On March 31, 2014, Docket No. RE-00000C-14-0112 was opened for the purpose of the Commission considering modifications to the REST rules per Decision No. 74365. A fundamental question which Staff believes needs to be answered at the outset is what is the information the Commission wants to track regarding Distributed Renewable Generation ("DG")/Distributed

¹ Decision No. 74365, p. 55 at lines 7-13.

1 Renewable Energy ("DE"), i.e., 1) all information regarding DG/DE activity in the utilities' service
2 territory regardless of whether the utility owns it or not; or 2) only information concerning the
3 DG/DE that the utility owns or has purchased. The answer to this question will more clearly define
4 what changes, if any, may be required to the REST rules.

5 After consultation among Staff, with the parties to the case and stakeholders, Staff concluded
6 that the parties would not be able to reach consensus on the concept/approach for new REST rules,
7 much less the actual new rules themselves. Therefore, Staff has developed seven (7) concepts for the
8 Commission to consider. The hope is that these concepts, alone or in some combination, and the
9 parties' comments thereon, will provide the framework for discussion and an ultimate decision on an
10 approach that is acceptable to the Commission. Once the Commission has an opportunity to review
11 these concepts and the parties' comments, the Commission could, at an Open Meeting, provide Staff
12 with direction on how the Commission would like the existing REST rules modified, if the
13 Commission believed REST rule modifications were necessary for utilities to comply with the Rules,
14 and the original Recommended Opinion and Order ("ROO") proposed by the Hearing Division is not
15 an acceptable alternative.

16 Following are the seven (7) concepts (not in any order of preference) on which Staff seeks
17 comment:

18 **I. Track & Monitor**

19 Assume:

- 20 A. Utility has retail sales of 1,000,000 kWh
21 B. Renewable requirement by rule is 10% of retail sales
22 C. Compliance is required to be met with Renewable Energy Credits ("RECs")
23 D. 1 REC = 1 kWh
24 E. Utility owns 90,000 RECs
25 F. Other renewables in Utility's service area are producing 20,000 kWh for which Utility
26 does not own the RECs

27 Rules would work such that the renewable energy requirement for Utility would be reduced to
28 8% of retail sales, therefore, Utility would be considered in compliance with the rules because it
owned 90,000 RECs which is equivalent to 90,000 kWh which is 9% of retail sales. Renewable
requirement was reduced to 8% because renewable production from others (Utility does not own
RECs) is 20,000 kWh which is equivalent to 20,000 RECs which is 2% of Utility retail sales: 10%
minus 2% = 8%.

1 This concept would not eliminate the DG/DE carve-out. Although this concept would reduce
2 the Utility's compliance requirement for both total renewable energy and DG/DE, the actual amount
3 of either would not be reduced.

4 **II. Process Where Utility Would Purchase Least Cost RECs or kWh**

5 Require the Utility to purchase RECs or renewable kWh in order to meet REST
6 requirements. The Utility would be required to demonstrate that it purchased the least-cost REC or
7 renewable kWh available at the time of purchase. This could be accomplished by having the Utility
8 periodically issue Requests for Proposals from any and all interested entities wishing to sell
9 renewable kWh or RECs to the Utility.

10 This concept would not eliminate either the total renewable energy mandate or the DG/DE
11 carve-out.

12 **III. Creation of Maximum Conventional Energy Requirement**

13 Completely rewrite the REST Rules to eliminate the "minimum" Renewable Energy
14 Requirement to instead have a "maximum" Conventional Energy Requirement. Conventional
15 Energy would be defined as any electrical energy produced by fossil or nuclear fuel. Maximum
16 allowable Conventional Energy per year would be a percentage of total electrical energy consumed
17 within a Utility's service area (as defined by the area covered by its Certificate of Convenience and
18 Necessity ("CC&N")).

19 This concept would completely change the method by which renewable energy was accounted
20 for by instead placing a limit on the amount of non-renewable (i.e., conventional) energy that is
21 consumed. Depending on how the change is made, may or may not eliminate the DG/DE carve-out.
22 However, this concept would eliminate any tracking or reliance on RECs. In addition, this concept
23 could eliminate the REST surcharge since there is no longer a renewable energy mandate. Although
24 this concept would eliminate the renewable energy mandate, the amount of total renewable energy
25 produced should be equivalent to the amount produced under the current REST rules.

26 **IV. Mandatory Upfront Incentives ("UFI")**

27 UFI range could be \$0.10 per watt to \$0.50 per watt (\$2.00 per watt for Co-ops). UFI
28 mandate and/or DG/DE mandate could be waived if resulting rates were found to be not in the public
interest or sufficient DG was being installed by third parties within the Utility's service area (as
defined by the area covered by its CC&N). The public interest impact of the rates and the sufficiency
of third-party DG would be determined by the Commission on a case-by-case basis.

Because of the UFI, any customer that accepted the UFI would be required to relinquish
his/her REC to the Utility, just as in the past when UFIs were offered. This concept would not
eliminate either the total renewable energy mandate or the DG/DE carve-out. However, this concept
would increase the REST surcharge due to the reinstatement of UFIs.

29 **V. REC transfer Associated with Net Metering**

30 Customer installing DG would be required to transfer all RECs produced by that DG if
31 customer wanted to participate in Utility's net metering.

1 This concept would be the easiest rule modification, but could be quite controversial.
2 Although this concept would not eliminate either the total renewable energy mandate or the DG/DE
3 carve-out, some parties may view this as a takings because of their opinion that the Utility is not
properly/adequately compensating the customer for the REC. Staff does not believe this would
result in a takings.

4 **VI. Recovery of DG/DE Costs Through the Standard Rate Case Process**

5 Utility would not be allowed to recover costs of complying with DG/DE requirement
6 through the REST Tariff/Surcharge. Utility would be allowed to request a waiver of DG/DE
7 requirement if it demonstrates financial hardship or sufficient DG was being installed in the Utility's
8 service area (as defined by the area covered by its CC&N) by third parties. Financial hardship and
9 sufficient third-party DG installation would be decided by the Commission on a case-by-case basis.
10 Since incentives are no longer being offered by the Utility, the Utility would have to decide how
best to comply with the DG/DE requirement of the REST rules, e.g. build its own DG, buy RECs or
kWh. Utility would be allowed recovery of the cost for this compliance through the rate case
process, e.g., once a DG system for which the Utility paid was found to be used and useful, the
Utility could request cost recovery for that system in a rate case.

11 Some utilities may argue that this is unfair unless there is a regulatory asset created or a
12 deferral account established. This concept would not eliminate either the total renewable energy
mandate or the DG/DE carve-out.

13 **VII. Track & Record**

14 This concept would require the Utility to track, record and report all renewable kWh
15 produced within its service territory (as defined by the area covered by its CC&N). In its reporting
16 to the Commission the Utility would report all kWh produced in its service territory and distinguish
17 between those kWh for which it owned the REC and those for which it did not own the RECs. The
reporting of kWh associated with RECs not owned by the utility would be reported strictly for
informational purposes only. The Commission could consider all available information (including
kWh produced) when determining compliance with the REST rules. The Commission would make
the following statement (or something similar) part of the REST rules:

19 *Any Renewable Energy Credit ("REC") created by the production of*
20 *renewable energy which the Affected Utility does not own shall be*
21 *retained by the entity creating the REC. Such REC may not be*
22 *considered used or extinguished by any entity without approval and*
23 *proper documentation from the entity creating the REC, regardless of*
24 *whether or not the Commission considered the kWh associated with*
25 *non-utility owned RECs in determining an Affected Utility's*
26 *compliance with these rules.*

27 This concept would not eliminate either the total renewable energy mandate or the DG/DE
28 carve-out. In addition, because reporting of kWh for which the Utility did not own the REC would
be strictly for informational purposes only and because of the statement added regarding the
use/extinguishment of RECs, the issue of double-counting should be eliminated.

1 Staff requests parties to this Docket and any interested stakeholders provide comment on the
2 seven (7) options described above by April 21, 2014; and reply comments by April 28, 2014.
3 Anyone filing comments should feel free to also offer their own alternatives or proposals for new
4 REST rules per Decision No. 74365. For parties' preferred options, or if a party is offering its own
5 alternatives or proposals, it is important that the party include the actual changes to the REST rules
6 that it believes would be necessary to accomplish the changes being advocated. If an interested
7 party's position is that no changes are necessary for utilities to achieve compliance with the rules,
8 please indicate that as well, and provide a detailed explanation.

9 RESPECTFULLY SUBMITTED this 4th day of April, 2014.

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